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SUBJECT: CHINA/ENERGY: SENIOR DIRECTOR HUNTER, NDRC VICE-CHAIRMAN  
ZHANG XIAOQIANG MEET TO DISCUSS BILATERAL ENERGY ISSUES

REF: BEIJING 23859

Summary

1. (SBU) NSC Senior Director Roszell Hunter and National Development and Reform Commission (NDRC) Vice-Chairman Zhang Xiaoqiang met to discuss energy and environmental issues relating to the Strategic Economic Dialogue (SED) on November 16, 2006. Senior Director Hunter stated Washington wants cross-cutting discussions during the SED that move it beyond an exchange of talking points and towards frank exchanges. The United States has thirty years experience balancing economic growth and environmental protection that China can draw on during the SED. Washington policymakers have broad interest during the SED in learning more about the role of market forces in China's energy policy, said Senior Director Hunter. Vice-Chairman Zhang stated China also wants a cross-cutting approach to the SED. China is looking for assistance to meet energy conservation goals. The NDRC hopes the SED will give Beijing a better understanding why Washington has inconsistent standards for western oil companies and Chinese oil companies as they conduct business abroad. Zhang noted that China needs a long-term commitment from the United States in order for Westinghouse to secure the contract to bid the next generation of China's nuclear power plants. End Summary.

Senior Director Hunter Raises SED Framework

2. (SBU) NSC Senior Director Roszell Hunter and NDRC Vice-Chairman Zhang Xiaoqiang met to discuss energy and environmental issues relating to the SED on November 16, 2006. Senior Director Hunter said that his objective visiting the NDRC is to facilitate cross-cutting discussions during the SED. Washington's goal is to move the SED beyond an exchange of talking points and towards frank exchanges focused on finding solutions to common problems. For example, discussing the role of market forces in economic development can bring senior energy and health care policymakers together. Both groups must ensure government enables timely and effective delivery of critical services, such as electricity and medical care, to customers, according to Senior Director Hunter.

3. (SBU) Senior Director Hunter emphasized that the United States now has more than thirty years legal and regulatory experience

managing the relationship between economic growth and environmental protection. These experiences can be helpful to China as it manages its own economic growth. The SED is a good opportunity for Beijing to gain greater access to this type of assistance from the United States, according to Senior Director Hunter. United States Government officials participating in the SED have broad interest in learning more about the role of market forces in China's energy policy. For example, they want to learn more about the role of the market in regulating China's energy demand and enabling China to improve its energy supplies while discouraging wasteful energy practices, said Senior Director Hunter.

#### Zhang: Cross-cutting Approach Best

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14. (SBU) Vice-Chairman Zhang stated during the last round of meetings about the SED representatives from both countries agreed for the need to have a cross-cutting approach. This technique helps when attempting to balance energy needs and environmental concerns in a way that fosters sustainable economic development. Zhang said that China has a very ambitious plan to develop renewable energy resources and other energy resources such as nuclear energy. China is looking for technology, equipment, and capital to help develop these resources.

15. (SBU) Vice-Chairman Zhang noted that Beijing and Washington should use the SED to explore opportunities for cooperation in the energy and environmental protection arena. China's participation in the United States-led FutureGen clean coal power plant program is a good example of the type of cooperation the two sides should further develop. Additionally, Beijing will look to Washington to provide assistance in helping China reduce its energy intensity level. China's Eleventh Five Year Plan has an ambitious goal of a twenty percent cut in energy intensity by 2011. The NDRC is anxious

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for any assistance the United States can provide in enabling China to meet this goal, according to Zhang.

#### Zhang: Free Market Not Always the Best

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16. (SBU) Vice-Chairman Zhang went on to state that China is working to find the balance between market forces and the regulatory role of the Central Government in energy matters. Beijing's view is that at times the market's "invisible hand" fails to adequately provide for the welfare of average citizens. Problems relating to build-own-operate (BOT) power plant projects in the Philippines and California's power shortages in 2001 are examples of how markets left to their own design can fail to provide adequate services at an appropriate price. As a domestic example, Zhang highlighted that many industrial polluters in China, such as power plants, have installed emissions controls at their facilities. Unfortunately, the emissions controls are only operational during environmental inspections because the equipment is expensive to operate, according to Zhang.

#### Zhang: United States Restricting China's Energy Market Abroad

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17. (SBU) Vice-Chairman Zhang stated a cross-cutting approach to the SED should also facilitate discussions on energy security since that issue involves numerous factors including geopolitics, transportation security, and the role of market speculators in the international energy market. China and the United States as the world's leading energy consumers have a shared responsibility to promote energy security. NDRC Chairman Ma Kai believes that China and the United States have a shared, but differentiated responsibility in that regard, said Zhang.

18. (SBU) Vice-Chairman Zhang said that the NDRC wants to gain a better understanding why the United States Government is so concerned about where, and with whom China seeks oil deals. The NDRC believes the United States has inconsistent standards for western oil companies and Chinese oil companies, said Zhang. For example, Washington is very concerned about Chinese companies

seeking deals in Iran. The United States is apparently unconcerned about British, French, Italian, Japanese, and Russian firms doing the same, according to Zhang. SED discussions on this issue do not have to take place at a country-specific level, but a broad discussion would help Beijing to better understand Washington's thinking on the matter.

Zhang: Need MOU for Westinghouse Deal  
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¶9. (SBU) Vice-Chairman Zhang noted that China needs a long-term commitment from the United States in order for Westinghouse to secure the contract to bid the next generation of China's nuclear power plants. The United States and China currently have good energy cooperation, but if the United States continues to retain strict control over exports of civilian high-technology products to China, then Washington will hurt the competitiveness of American companies. Zhang acknowledged that Beijing has received advocacy letters on behalf of Westinghouse from Energy Secretary Bodman, Commerce Secretary Gutierrez, and Secretary of State Rice.

¶10. (SBU) Vice-Chairman Zhang stated that the letters demonstrate Washington's commitment to helping Westinghouse win the nuclear power plant contract. The letters do little to provide assurances on the United States' long-term view on energy cooperation with China. Zhang claimed that Beijing is concerned that if bilateral ties become strained, or if the United States enacted some sort of new sanctions against China, cooperation on the nuclear power plant contract could be affected. Beijing also is concerned that tightened export control restrictions could impede the progress of the program. The best way to mitigate this concern is for Washington and Beijing to sign a memorandum-of-understanding relating to the project, said Zhang.

Hunter: More Information Needed On MOU  
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¶11. (SBU) Senior Director Hunter responded that the United States Government understands China's concerns about export control

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restrictions. Washington does not normally use government-to-government MOU's to support commercial transactions. Senior Director Hunter said that because of this fact it is important for the NDRC to provide a clear understanding of what it expects to be in such an agreement. (Note: Embassy Beijing met with NDRC officials on Friday November 17, 2006 in response to Senior Director Hunter's request for more information. See Reftel for more information. End Note.)

Participants and Clearances  
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¶12. (U) Chinese participants:

Zhang Xiaoqiang, Vice-Chairman of the NDRC  
Ma Xin, Director General, NDRC Department of Foreign Affairs  
Li Bin, Deputy Director General, NDRC Department of Foreign Affairs  
Gu Jun, Director, NDRC Department of Foreign Affairs  
Guo Xin, NDRC Department of Foreign Affairs (Interpreter)

¶13. (U) United States participants:

Roszell Hunter, Senior Director, NSC  
Robert Dohner, Deputy Assistant Secretary of Treasury  
Robert Luke, Economic Minister-Counselor  
Deborah Seligsohn, Environmental, Science, Technology, and Health Counselor  
Marco Dicapua, DOE Beijing Office Director  
Cheryl McQueen, Director, Office of the Chinese Economic Area, Market Access & Compliance, Commerce Department  
Sarah Ellerman, Commercial Officer  
Brian Jones, Economic Officer (Notetaker)

¶14. (U) Senior Director Hunter and his delegation did not have an opportunity to clear this cable before departing Beijing.

